

FYI – For Your Information

Interest, Dividend and Capital Gain Subtraction

GENERAL INFORMATION

For tax years, during which the state's fiscal year ends with a qualified surplus, individuals, estates and trusts may subtract certain interest, dividend and capital gain income from federal taxable income. [§39-22-104(4)(1.5), C.R.S.] The maximum amount that can be subtracted is:

- Tax year 2000 - \$1,200; \$2,400 for two individuals filing jointly,
- Tax years 2001 and later - \$1,500; \$3,000 for two individuals filing jointly.

NOTE: The interest, dividend and capital gain subtraction is not available for tax years 2002 through 2010. The State of Colorado did not have a sufficient budget surplus for the years ending June 30, 2002 through June 30, 2005, and as a result of Referendum C that passed at the November 2005 statewide election, there will not be a budget surplus refund for the years ending June 30, 2006 through June 30, 2010.

ALLOWABLE SUBTRACTIONS DEFINED

Individuals, trusts and estates may subtract interest income, dividend income and net capital gain income to the extent it is included in federal taxable income. The subtraction shall be the combined total of such interest, dividends and capital gains.

For the purposes of this subtraction, "net capital gains" means net capital gain as defined in Section 1222 (11) of the Internal Revenue Code.

Example: Stephanie reports the following income on her federal income tax return:

| | |
|------------------|---------|
| Interest income | \$500 |
| Dividend income | \$200 |
| Capital gain | \$1,300 |
| Capital loss | \$1,700 |
| Net Capital loss | (\$400) |

Stephanie can claim an interest, dividend and capital gain subtraction on her Colorado income tax return of \$700, the total of the interest and dividend income. She may not deduct any of the \$1,300 capital gain because she had a net capital loss reported on the federal return. She is not required to reduce the \$700 subtraction by the net capital loss.

DOUBLE DEDUCTIONS DISALLOWED

Certain income may qualify to be subtracted from federal taxable income for more than one reason. If this is the case, the taxpayer must determine which subtraction to use to deduct this income based on their specific tax situation. It is important to note that income may only be subtracted one time.

Example: Tara's federal taxable income includes capital gain income from Colorado sources of \$2,000 that can be subtracted from federal taxable income under the Colorado Capital Gain Subtraction (FYI Income 15) as well as the interest, dividend and capital gain



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subtraction. It also includes Federal interest income of \$900 that can be subtracted from federal taxable income under the United States government interest subtraction (FYI Income 20) as well as the interest, dividend and capital gain subtraction. Tara also reported interest income from a savings account of \$400. Tara must subtract the \$2,000 capital gain income on the Colorado capital gain subtraction line and the \$900 federal interest on the United States government interest subtraction line of the 104 form. The only amount she would deduct on the interest, dividend and capital gain subtraction line is the \$400 of interest income. She would not be allowed to deduct an additional \$1,100 of capital gain or federal interest income on the interest, dividend and capital gain subtraction line since these amounts are already deducted from taxable income on other lines of Form 104.

QUALIFIED SURPLUS

The qualified surplus that is needed for the interest, dividend and capital gain subtraction to be available in any given tax year is a \$493.9 million surplus that must be refunded under section 20 of Article X of the state constitution. The \$493.9 million amount will be adjusted annually for the rate growth of Colorado personal income.

FURTHER INFORMATION

FYIs, commonly used forms and additional tax information are available on the Web at www.taxcolorado.com

For additional income tax information visit the "Tax Information Index" which covers a variety of topics including links to forms, publications, regulations, statutes and general questions and answers. The "Tax Information Index" is located at www.taxcolorado.com

FYIs provide general information concerning a variety of Colorado tax topics in simple and straightforward language. Although the FYIs represent a good faith effort to provide accurate and complete tax information, the information is not binding on the Colorado Department of Revenue, nor does it replace, alter or supersede Colorado law and regulations. The Executive Director, who by statute is the only person having authority to bind the Department, has not formally reviewed and/or approved these FYIs.